

## MEMORANDUM FOR HEADQUARTERS ELEMENTS

FROM: ELIZABETH E. SMEDLEY  
ACTING CHIEF FINANCIAL OFFICER

SUBJECT: Programmatic Responsibilities in 1997 Management Representation  
Letter

The Government Management Reform Act of 1994 requires the Department to prepare and have audited Department-wide financial statements for FY 1997. In compliance with this Act, the Department will submit fiscal year 1997 financial statements to the Inspector General for audit later this year. As an integral step of the audit, the Inspector General must obtain a management representation letter from the Department's senior management acknowledging responsibility for the fair presentation of its financial statements. The Department's management representation letter package will be two part: (1) The Secretary will sign a brief transmittal and (2) the Department's senior management will sign detailed letters. The Office of Chief Financial Officer is taking the lead in preparing the Department's management representation letter.

Each senior staff member will be required to submit a management representation letter to the Secretary on the area of performance measures and any others specific their organization. For example, the Office of Human Resources and Administration will attest to issues surrounding the Department's pensions and the Office of Environmental Management will attest to areas surrounding the Department's environmental liability. Staff from my office are planning to hold a training session to discuss programmatic responsibilities regarding the management representation letter in September. Your representation letters are due to the Chief Financial Officer by December 10, 1997. To aid in the understanding of which assertions may be applicable to particular offices, I have included a draft of the final package the Secretary will forward to the Inspector General as Attachment A. This attachment has been annotated to show which offices are responsible for specific assertions. While individual offices will have responsibility for specific issues within the management representation letter, all offices should be prepared to attest to the assertion on performance measures. You will also note the Management Control Program Year-end Assurance Letters will cover several attestations and they are appropriately noted as well. Attachment B includes some detailed instructions for preparing the management representation letter. More information will be provided at the training session.

If you have any specific questions relating to the management representation letter process you may phone Genoa Mitchell of the Office of Program Liaison and Financial Analysis at 3-1243. I look forward to working with you during the FY 1997 financial statement process.

Attachments

cc:  
Program Office Financial Statement Contacts

MEMORANDUM FOR THE INSPECTOR GENERAL

FROM: FREDERICO F. PEÑA

SUBJECT: Fiscal Year 1997 Management Representation Letter

As part of your audit of the Department's financial statements for fiscal year 1997, I understand you require letters of representation from senior management as an integral part of expressing an audit opinion on this statement. Accordingly, I am transmitting representation letters signed by the Department's Senior Management. I have no knowledge of information which contradicts the representations, nor am I aware of any additional matters or occurrences up to the date of this memorandum that could materially affect the Department's financial statements, other than those already disclosed.

I understand and acknowledge management's responsibility for the fair presentation of the Department's financial statements. The statements were prepared in accordance with applicable accounting standards and principles.

Attachments

December 1997

MEMORANDUM FOR THE INSPECTOR GENERAL

SUBJECT: Fiscal Year 1997 Management Representation Letter

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit of the consolidated financial statements of the Department of Energy as of September 30, 1997. We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in assisting you to form an opinion whether the financial statements presently fairly, in all material respects, the financial position, results of operations, changes in financial position, and reconciliation to the Department's budget in conformity with the applicable accounting standards described in Note 1 of the financial statements.

**RESPONSIBLE  
OFFICE**

GENERAL

- |                                   |    |   |
|-----------------------------------|----|---|
| <b>CFO</b>                        | 1. | We acknowledge our responsibility for the fair presentation of the Department's financial statements. We believe the Department's financial statements, accompanying notes, and supplementary schedules present fairly the financial position, results of operation, changes in financial position, and reconciliation to budget in conformity with generally accepted accounting principles for Federal agencies. Such principles have been consistently applied and used in the preparation of the financial statements for the fiscal year ended September 30, 1997. |
| <b>HEADS OF<br/>DEPT ELEMENTS</b> | 2. | We acknowledge our responsibility for the fair presentation of the performance measure information presented in the Overview section and the Supplemental Information of the financial statements. We believe this data to be accurate and reliable as it faithfully represents the results of funded activities.   |
| <b>CFO</b>                        | 3. | We have made available to you all financial records and related data. We are not aware of any accounts, transactions, or material agreements not fully described and properly recorded in the financial and accounting records underlying the financial statements.   |
| <b>CFO HR</b>                     | 4. | We have made available to you all significant contracts and agreements. We have complied with all aspects of these contractual agreements that would have a material effect on the financial statements in the event of noncompliance.  |

**CFO EM**  
**DP MD PO**  
**HR FE**

5. We have no plans or intentions that may materially affect the carrying value or classifications of assets and liabilities as reflected in the financial statements.

**FMFIA**

6. We acknowledge management's responsibility for compliance with laws and regulations applicable to the Department's programs and have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

**FMFIA**

7. There have been no communications from regulatory and oversight agencies including but not limited to the Office of Management and Budget, Department of the Treasury and the General Accounting Office, concerning noncompliance with, or deficiencies in, financial reporting practices or other matters that could have a material effect on the financial statements.

#### OWNERSHIP AND PLEDGING OF ASSETS

**CFO**

8. The Department has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

#### RECEIVABLES

**CFO**

9. Advances, accounts, loans, and notes receivable represent bona fide claims against debtors for charges arising on or before September 30, 1997.

**CFO**

10. Adequate provision has been made for losses, costs, and expenses that may be incurred subsequent to September 30, 1997, in respect to sales and services rendered prior to that date and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that date.

#### INVENTORIES

**CFO HR MD**  
**EM DP FE**  
**PO**

11. Inventories and materials are stated at historical cost in accordance with Statement of Federal Financial Accounting Standard Number 3., except where valuation at net realizable value is authorized by the Standard. These exceptions include (1) stockpile materials that management has determined have permanently declined in value below cost or are damaged or decayed; (2) excess, obsolete, or unserviceable items; and (3) petroleum produced for sale at the Department's Naval Petroleum Reserves.

**CFO HR DP  
FE EM**

12. Where feasible, physical counts and measurements of inventories and stockpile materials were made and records were appropriately adjusted to reflect the physical inventories.

**INVESTMENTS**

- CFO**
13. None of the investments held by the agency has permanently declined in value to less than the carrying value in the financial statements.

**CAPITAL ASSETS**

- CFO**
14. All capital assets are properly categorized as either work-in-progress or completed projects as required in agency policy.

- CFO**
15. The Department has recorded all capital assets to which it holds title in the financial statements.

**RELATED PARTY TRANSACTIONS**

**CFO**

- FIELD CFO**
16. All intra agency and interfund transactions and the related accounts receivable or payable, including appropriation reimbursements, and transfers in and out have been properly recorded or disclosed in the financial statements.

**LIABILITIES**

**CFO EM DP**

- HR**
17. All liabilities, of which we are aware, have been properly recorded and/or disclosed in the financial statements. Adequate provision has been made for losses expected to occur on guaranteed loans outstanding as of September 30, 1997.

**CONTINGENT LIABILITIES**

- CFO**
18. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies" other than those disclosed in Note 25.

- CFO**
19. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting

Standards No. 5 , nor are there any accruals for loss contingencies included in the statement of overall financial position that are not in conformity with the provisions of Statement of Financial Accounting Standards No. 5.

#### ORAL AND WRITTEN GUARANTEES OF THE DEBT OF OTHERS

- CFO** 20. There are no oral or written guarantees of the debt of others.

#### PURCHASE AND SALES COMMITMENTS

- HR CFO** 21. At September 30, 1997, the Department had no material purchase commitments in excess of normal requirements or at prices that were in excess of market at that date, and no important sales commitments that it is unable to fulfill or that were at prices less than costs or expected costs to purchase or manufacture, increased by selling expenses, which would include the Department's added factor.

- HR CFO** 22. There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 1997 for future contracts, short sales, or hedge transactions.

#### COST ALLOCATION

- CFO EE FE  
DP ER EM  
NE NN EH** 23. Costs have been recorded in accordance with the Statement of Federal Financial Accounting Standard Number 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government". Indirect costs were allocated to responsibility segments in an equitable manner resulting in a reasonably accurate presentation of total costs.

#### INTERNAL CONTROL STRUCTURE

- FMFIA** 24. We recognize that management is responsible for establishing and maintaining an effective internal control structure at the Department. Therefore, we have evaluated the internal controls of the Department and reported the results. My Federal Managers' Financial Integrity Act Report to the President details all reportable problems and nonconformances of the Department as required by Sections 2 and 4 of the Act.

**IRREGULARITIES OR CONFLICTS OF INTEREST**

- FMFIA** 25. There have been no known irregularities involving management or employees who have significant control over the internal control structure. There are no known irregularities involving other employees that could have a material effect on the financial statements.

**SUBSEQUENT EVENTS**

- CFO EM HR**  
**DP FE MD** 26. There are no known events or transactions that have occurred since  
**PO** September 30, 1997, or are pending, that would require adjustment to, or disclosure in, the financial statements.

## INSTRUCTIONS

1. Heads of Departmental Elements will submit a management representation letter addressed to the Secretary by December 10, 1997. The letter should be forwarded to the Office of Program Liaison and Financial Analysis Attention: Genoa Mitchell, CR-30, GTN, Rm C-176. The Office of Program Liaison & Financial Analysis will consolidate the responses and present the information to the Secretary in preparation for signature on the final package.
2. Heads of Departmental Elements Representation Letters will be attached to the Secretary's transmittal memo as part of the final package for the Inspector General. This representation letter is an integral part of the financial statement audit, the letter assists the Inspector General in forming an opinion whether the Department's financial statements presently fairly, in material respects, the financial position, results of operation, changes in financial position, and reconciliation to budget in conformity with accounting principles.
3. Heads of Departmental Elements should model their representation letters on the draft included as attachment A. This draft includes all possible assertions, some may not be applicable to all Offices. It may also be necessary to include exceptions or further explanation to some assertions. Such assertions should be fully explained in the letter. As noted, the Department's FMFIA process will serve to support several assertions (6,7,24,&25) which need not be addressed in the letters.
4. The cost allocation assertion is new for FY 1997. Heads of Departmental Elements are asked to attest to the allocation of indirect costs to applicable responsibility segments under their cognizance. This assertion is a result of the new Statement of Federal Financial Accounting Standard Number 4. Program offices will learn more about the allocation of costs to responsibility segments at the September 1997 training session.
5. The FY 1996 Financial Statement Audit resulted in a Management Report which included a recommendation on Performance Measure Reporting. The Inspector General recommended that the internal control structure for reporting performance measures be strengthened. Accordingly, the Office of the Chief Financial Officer and Office of Policy and International Affairs stress the importance of accurate reporting of performance results and the maintenance of adequate supporting documentation. Heads of Departmental Elements should consider this prior to attesting to the performance measure assertion. Each Head of a Departmental Element is responsible for ensuring performance measurement data reported to the Office of Policy is accurate, reliable, and adequately supported.
5. The Secretary's final package will be dated to correspond with the last date of the auditor's field work. Heads of Departmental Elements are asked to prepare their letter based on knowledge as of the date of their report. Any subsequent events should be should be reported to the Office of Program Liaison and Financial Analysis promptly.